E-TRAINING ON COMPILATION OF SUT IN AFRICA

ACS/ESNA

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Session 8: Using government accounts and balance of payments for national accounts
Outline of the presentation

• General Government accounts to national accounts
  – Introduction
  – Definition and coverage of government
  – Sources of data
  – Structure of government accounts
  – Estimating output, intermediate consumption, value added and government consumption
  – Compiling the columns of intermediate consumption of government services and GFCE in the use table of SUTs
• Balance of payments and rest of the world accounts
  – Accounting principles and concepts
  – Data and classifications
  – Relationship between international accounts and ROW accounts
  – Special cases
General Government accounts to national accounts
Introduction

- Source data is usually government accounts (budget documents) and rarely from any other alternative sources such as censuses or surveys.
- Available to national accountants either in hard copies or in electronic form.
- Sometimes the available data is detailed, item-wise for each ministry/departments and for different levels of government.
- Sometimes the data available is aggregated or only for some government units or consolidated for all government units.
- The extent of detailed data available from government accounts determines the quality of national accounts for general government.
  - There are several borderline cases where items of expenditures or revenues can be classified under national accounts transactions one way or other.
  - Therefore, availability of detailed item level data in the government accounts helps in correctly classifying the revenues and expenditures of government against national accounts transactions.
Definition of Government

- SNA definition
  - Government units are unique kinds of legal entities established by political processes that have legislative, judicial or executive authority over other institutional units within a given area. Viewed as institutional units, the principal functions of government are to assume responsibility for the provision of goods and services to the community or to individual households and to finance their provision out of taxation or other incomes; to redistribute income and wealth by means of transfers; and to engage in non-market production.

- Principal characteristics of government
  - Engage in non-market production;
  - Provide goods and services to the community or to individual households;
  - Redistribute income and wealth by means of transfers; and
  - Finance their activities through taxation or other incomes.
Coverage of Government

• Budgetary units
  – Central government
    • Its revenues as well as its expenses are normally regulated and controlled by a Ministry of Finance, by means of a general budget approved by the Parliament.
  – State/provincial or local governments

• Extra-budgetary units
  – non-market producers established to carry out specific government functions and are controlled by a government unit

• Social security fund
  – devoted to the operation of one or more social security schemes

• NPIs
  – non-market producers and controlled by a government.
Sources of data

• Depends on the political and administrative structure of the economy

• Central government
  – Ministry of Finance – budget documents

• Ministries/departments
  – Demand for grants from ministries/departments submitted to Ministry of Finance
  – Concerned ministries/departments
    • Necessary for identifying expenditures by purposes
    • One department may spend for different purposes

• Provincial governments
  – Budget documents of provincial governments

• Local governments
  – Local government accounts

• Extra-budgetary units, NPIs and Social Security funds
  – Accounts of concerned units
Structure of government accounts (1/2)

- The type and structure of government accounts vary across the countries, depending upon their political and administrative procedures and arrangements.
- The accounting heads are generally categorised under:
  - revenue (further broken down by current and capital receipts), and
  - expenditure (broken down by current and capital expenditure).
- Some countries may also have separate accounts for loans and advances, and public debt.
- The sub-accounts could be the consolidated fund, charged fund, development fund, etc. or country specific sub-accounts.
- In a typical set of budget documents, information on budgeted amounts may be available for the current fiscal year and actuals for the previous fiscal year.
Structure of government accounts (2/2)

• Individual revenues and expenditures are classified according to a set of standard ledger codes, which sometimes can extend up to 15 digits and these are unique across the ministries/departments of central government and state/provincial governments and local governments.

• In such cases, it is easy for national accountants to prepare concordance tables between the ledger codes and SNA transactions and generate national accounts aggregates and sequence of accounts, in a simplified manner, after incorporating suitable adjustments required to meet SNA concepts.

• However, these ledger codes may not be standardised across various levels of government. In which case, national accountants have to go through the detailed data on expenditures and revenues by items and allocate them to appropriate SNA transactions on the basis of their descriptions.

• This is often a very lengthy process, but if the micro-data is available electronically, the process becomes easier.
Estimating Output, value added and consumption expenditure

• Non-market output of government units is valued at production costs

| Output of government | Intermediate consumption + Compensation of employees + Consumption of fixed capital + Other taxes (less subsidies) on production, if any |

• The net operating surplus for government units is zero. By convention, no net return to capital is included for non-market production. It is possible for some government units undertaking market production to have net operating surplus.

• Expenditures by government on goods or services produced by market producers that are provided directly to households, without any further processing, are not included in intermediate consumption (therefore, also not in non-market output).

• Other taxes less subsidies on production are paid by government units to itself is generally negligible. As a result, the net value added of government equals compensation of employees
Compensation of employees (1/2)

- Data on wages paid in cash may be directly available
- Wages in kind may have to be estimated
  - Wages and salaries in kind consist of goods and services provided without charge, or at reduced prices. When provided at reduced prices, it is computed as the difference between the value of the goods and services and the amount payable by the employees.
  - Borderline cases, such as free transportation, clothing, which could be either wages in kind or intermediate consumption, depending upon the situation, need to be treated carefully
- CoE also includes social security contributions that include (i) actual employers’ social contributions and (ii) imputed employers’ social contributions.
  - Though these contributions are not directly paid to employees, they are rerouted, first to the employees and then from the employees to the social insurance schemes.
Compensation of employees (2/2)

• Imputed employers’ social contributions are the amounts calculated and added to actual contributions, sufficient to exactly match the increases in employees’ social benefit entitlements. These imputed employers’ social contributions may relate to pension and to non-pension benefits.

• Some government units provide pensions and employment related non-pension social benefits out of their own resources without involving an insurance enterprise.
  – The values of these benefits during the current year should be imputed based on *de facto* entitlements using actuarial methods.
  – If such estimates are available, they can be used directly. Otherwise, the only practical alternative may be to use the unfunded pension and non-pension benefits payable by the unit during the same reporting period as an estimate of the imputed expense that would be needed to cover the imputed contributions.
Intermediate consumption

- Intermediate consumption (IC) consists of value of goods and services that are used as inputs (completely used up) in the production process in the accounting period.
- Expenditures by government on goods or services produced by market producers that are provided directly to households, without any further processing, are not included in intermediate consumption.
- FISIM allocated to the general government sector forms part of its intermediate consumption.
Consumption of fixed capital (1/2)

- *CFC* is the decline, during the course of the accounting period, in the current value of the stock of fixed assets owned and used by a producer as a result of physical deterioration, normal obsolescence or normal accidental damage.

- Government accounts mostly do not show CFC, but it is necessary to estimate CFC and include it in the value of output.

- CFC is estimated with respect to all fixed assets owned by government units, but not for valuables.

- To compute CFC, fixed assets purchased in the past and still in use have to be revalued at the average prices of the reference period and assumptions have to be made regarding the remaining service lives of each asset and the rate at which their efficiency is expected to diminish.

- Therefore, for estimating CFC, capital stock data are needed to be computed.
Consumption of fixed capital (2/2)

• SNA recommends computing capital stock data indirectly through perpetual inventory method (PIM).
  
  – Basically the PIM writes down the value of all assets existing at the beginning of the year in question by the reduction in their value during the year, eliminates those assets that reach the end of their useful lives in the year and adds the written-down value of assets acquired during the year.
  
  – The computations include that the values of assets are initially brought down to base year prices and after estimating capital stock using information on average service lives at base year prices, are again revalued to prices of the current period using appropriate price indices.
  
  – Estimates of CFC are obtained as a by-product of the PIM.

• If long term data on GFCF of government is not available, it is possible to estimate capital stock and CFC using simpler methods suggested in the OECD manual on measuring capital.
Government final consumption expenditure (1/3)

• GFCE is equivalent to government output, less the value of government sales of non-capital goods and services, plus social transfers in kind.
  – *Social transfers in kind include purchase of consumption goods and services produced by market producers by the government and supplied directly to households. The government unit does not engage in any further processing of such goods or services and the expenditures are treated as final consumption expenditure and not intermediate consumption of the government unit.*

| Final consumption expenditure of government | Value of all types of output of general government - value of output for own account capital formation - value of sales of goods and services + value of goods and services purchased from market producers for delivery to households free or at economically insignificant prices |

• Other government expenditures such as subsidies to industries, interest payments, costs of capital goods procurement, etc. do not form part of government output or final consumption expenditure.
Government final consumption expenditure (2/3)

- GFCE is divided into two categories
  - Individual
    - benefits individuals or small groups of individuals
    - consist mainly of (a) Health services including public health, (b) Recreation, culture and religion, (c) Education, (d) Social security and welfare services, and (e) Housing, refuse collection and sewerage services.
  - Collective
    - provides services to the community as a whole or to large sections of it
    - fall under the broad headings of general public services, defense, public order and safety, economic affairs and environment protection
    - they also include certain expenditures under housing, health, recreation and culture, education and social protection that are considered to be for the benefit of the community at large
- If it is difficult to separate GFCE between individual and collective consumption
  - the fall back option is to assume all government expenditure on the functions of housing, health, recreation and culture, education and social protection as individual consumption.
The final consumption expenditures of general government can be classified:

- According to whether the goods or services have been produced by market or non-market producers;
- According to whether the expenditures are on collective services or individual goods or services;
- By function or purpose according to the classification of the functions of government (COFOG) and further to broad ISIC categories, such as public administration; or
- By type of good or service according to the CPC.
# Data to be prepared for general government

**Cross-Classification of Expenditure by Functional and Economic Classifications**

<table>
<thead>
<tr>
<th>Economic categories → COFOG ↓</th>
<th>CoE</th>
<th>Use of goods and services</th>
<th>CFC</th>
<th>Interest</th>
<th>Subsidies</th>
<th>Grants</th>
<th>Social benefits</th>
<th>Other expense</th>
<th>Net Inv. in N-F assets</th>
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Columns of intermediate consumption of government activities in use table

- Detailed product-wise data on government expenditures is required for the intermediate consumption columns for the activities of general government sector.
- This information is generally not available in the government budget documents, or if available, it is in some aggregated form, such as, ‘office expenditure’, ‘transportation including fuel’, etc.
- In such cases, firstly these expenditures should be classified under broad product-groups included in the SUT.
- Further break-up of expenditures according to individual products is possible, if few government departments are requested to provide a break-up of their department expenditures on goods and services in terms of these products.
Column of GFCE in the use table

- The requirement of data for this component is the final expenditures of general government, disaggregated by products (for the SUT) and purposes (for national accounts).
- For the SUT, it is necessary that government expenditures on goods and services are classified under different functions (or purposes) of the government according to COFOG, in as much detail as possible.
- The GFCE data can further be classified as individual consumption and collective consumption.
- The data according to COFOG can easily be translated to ISIC/CPC using the concordance tables available between the purposes (COFOG) and the industries (ISIC) and products (CPC).
- Some developing countries show GFCE only under three broad product groups of education and health (individual) and Public administration and defence; compulsory social security (collective).
Rest of the world accounts and links to the Balance of Payments statistics
Introduction

• Transactions between residents and non-residents are recorded in the external sector statistics
• Data on imports and exports of goods is compiled according to the guidelines provided in the *International Merchandise Trade Statistics: Concepts and Definitions* (United Nations, 1998, 2010)
• Data on trade in services and balance of payments are compiled following the guidelines presented in BPM 6 (IMF 2009)
• 2008 SNA includes chapter 26: The rest of the world accounts and links to the balance of payments
• Generally, external sector statistics are readily available in most countries and facilitate easy translation to compilation of national accounts, and for preparation of imports and exports vectors in SUT
• The main data source for the rest of the world sector of SNA is the BoP
Accounting principles and concepts (1/6)

Economic territory

• The most commonly used concept of economic territory is the area under the effective economic control of a single government. The territory excludes international organizations and enclaves of other governments that are physically located in the territory.

• A branch of a non-resident unit is treated as an unincorporated enterprise and a quasi-corporation.

• When land in a territory is owned by a non-resident entity, a notional unit that can be treated as resident is identified for statistical purposes as being the owner of the land. This notional resident unit is a kind of quasi corporation.

• Few enterprises operate as a seamless operation over more than one economic territory (airlines, shipping lines, hydroelectric schemes on border rivers, pipelines, bridges, etc.).
  
  – If possible, separate branches should be identified, but if the entity is run as a single operation with no separate accounts, operations should be prorated according to an appropriate enterprise specific indicator of the proportions of operations in each territory.
Accounting principles and concepts (2/6)

• **Residence**
  – Primary criterion for deciding whether a transaction belongs to BoP is the residency of the two actors involved in the transaction.
    • Residency is different from citizenship.
  – The residence of each institutional unit is the economic territory with which it has the strongest connection, expressed as its centre of predominant economic interest.
    • Each institutional unit is a resident of one and only one economic territory determined by its center of predominant economic interest
    • Actual or intended location for one year or more is used as an operational definition.
  – A household is resident in the economic territory in which household members maintain or intend to maintain a **dwelling**
    • Being present for one year or more in a territory or intending to do so is sufficient to qualify as having a principal dwelling there
    • Individuals who belong to the same household must be residents of the same territory
Accounting principles and concepts (3/6)

• Institutional units
  – The concept of an institutional unit is the same in the 2008 SNA and BPM6
  – notional resident unit
    • When land located in a territory is owned by a non-resident entity, a notional unit that can be created and treated as resident, being considered the owner of the land (also applied to associated buildings, structures and other improvements on that land, leases of land for long periods, and ownership of natural resources other than land)
    • land and other natural resources are always assets of the economy in which they are located
Accounting principles and concepts (4/6)

• Records
  – Accounts are constructed on the principle of double-entry book-keeping
  – Balance of payments has only a double-entry system, whereas in the SNA quadruple entry system is followed, because it is difficult to verify independently the counterpart entries in the rest of the world.
  – Every transaction involves a credit and debit entry.
  – Credit entries carry a positive sign and cover the export of real resources such as goods and services, investment income receipts, and transfers received in the current account. In the capital account credit entries include the sale of assets to non-residents and borrowings from non-residents.
    • All credit entries represent inflows of funds.
  – Debit entries, which carry a negative sign, include imports of goods and services, investment income payments and transfer payments; acquisitions of foreign assets and payments of liabilities
    • All debit entries represent outflows of funds.
Accounting principles and concepts (5/6)

- **Time of recording and change of ownership**
  - Time of recording is the change of economic ownership of goods in both SNA and BoP
  - However, often the change of economic ownership of goods is taken to be when the goods are recorded in customs data, especially in the case of data compiled by the customs authorities on goods
  - In the case of merchanting (where an owner buys and resells goods in the same condition without the goods passing through the territory of the owner), the acquisition of the goods is identified as a change of ownership, but shown as a negative export rather than an import on acquisition of the goods and as a positive export on disposal.
  - Goods that change location from one economy to another but do not change economic ownership do not appear in imports and exports of balance of payments. Thus goods sent abroad for processing, or returned after processing, do not appear as imports and exports of goods; only the fee agreed for processing appears as a service.
Accounting principles and concepts (6/6)

• Valuation of exports and imports
  – In the BoP, goods are valued at the customs frontier of the exporting economy, that is, the FOB-type valuation.
  – This treatment brings about consistent valuation between exporter and importer.
  – In the IMTS, imports of goods are generally valued on cif basis.
Data and classifications
Trade statistics on goods

- Trade statistics on imports and exports of goods are available from customs authorities and other government bodies that maintain trade statistics.
  - Some adjustments to the customs data may be necessary, e.g. for merchandise that crosses the border without being imports (goods in transit, goods for embassies, military bases or other enclaves within a country’s borders, etc.), or for merchandise that does not cross the border but are imports (e.g. goods purchased by a country's embassies, military bases or other enclaves in other countries).
  - IMTS uses a CIF-type (cost, insurance and freight) valuation for imports, whereas BPM6 uses a uniform FOB valuation for both exports and imports in the BOP.
- Customs authorities follow the HS classification (6-digit), where as the other agencies compiling trade statistics follow the HS or SITC classification (5-digit), both extended further detailed levels by countries, to meet their internal requirements.
Data and classifications **Trade statistics on services**

- Data on imports and exports of *services* is available from the BoP.
- In the BoP, imports and exports of goods are generally shown in a single row, but trade in services is presented according to the following 12 standard components of services:
  
  a. Manufacturing services on physical inputs owned by others;  
  b. Maintenance and repair services n.i.e.;  
  c. Transport;  
  d. Travel;  
  e. Construction;  
  f. Insurance and pension services;  
  g. Financial services;  
  h. Charges for the use of intellectual property n.i.e.;  
  i. Telecommunications, computer and information services;  
  j. Other business services;  
  k. Personal, cultural and recreational services; and  
  l. Government goods and services n.i.e.
Using data on trade in goods and services in SUT (1/5)

• Goods
  – Source of data for goods is merchandise trade statistics
  – Data available according to HS/SITC needs to be converted to CPC. But, a simpler method is to use SUT product codes directly on the source data, as SUT codes may be few in number as compared to the CPC.
  – Data is available according to cif valuation, which is considered to be the basic price valuation in SNA. For the SUT, the imports of goods should be on cif valuation, but overall imports should be on fob valuation, as it is considered to be at purchasers’ prices
  – The control figures for imports and exports of goods is the data given in the BoP. But, this may be on fob valuation.
  – Therefore, it is necessary to make suitable adjustments to merchandise trade data before using it in the supply table. For this, national accountants need to understand the differences in the concepts and coverage of IMTS and BoP
Using data on trade in goods and services in SUT (2/5)

- IMTS use a cif valuation for imports, while the BoP use a uniform FOB valuation for both exports and imports.
- The change of ownership basis used for the balance of payments means that goods entries will have a time of reporting consistent with the corresponding financial flows. In contrast, IMTS follow the timing of customs processing.
- In the case of goods sent abroad for processing with no change of ownership, the values of goods movements are included in IMTS, but changes in ownership are the primary presentation in the balance of payments.
- IMTS data may not cover merchanting, nonmonetary gold, goods entering or leaving the territory illegally, goods procured in ports by carriers, and cover goods moving physically but where there has been no change of ownership.
- Adjustments may have to be made for purchase of residents and non-residents abroad, which is shown as travel item in the BoP statistics under services. If product level data can be estimated for travel item using tourism satellite accounts, imports and exports of products may be adjusted accordingly.
Using data on trade in goods and services in SUT (3/5)

• Services
  – Data for compiling imports and exports of services comes from the BoP statistics
  – Except for cif-fob adjustment and resident and non-resident purchases abroad (if not already included under Travel), no other adjustments are required for these data while using in SUT, as BoP and SNA follow the same standards
Using data on trade in goods and services in SUT (4/5) *c.i.f./ f.o.b. adjustment*

• Generally, data on imports is available at *c.i.f.* while exports are at *f.o.b.*

• SNA recommends that imports should be valued at *f.o.b.* prices, because the value of imported goods includes the transport and insurance services incurred in bringing them to the importing country, which are either provided by residents or by non-residents

• If they are provided by residents, this output is already included in the domestic production. On the other hand, if they are provided by non-residents, they are included in the imports (of services)

• This gives rise to double counting, and hence there is a need to remove the insurance and freight components in the imports, *c.i.f.*

• Therefore, the imports data needs to be modified to show
  – each imported good at *c.i.f.* since it is equivalent to the basic value of the same domestic goods; and
  – total value of imports must be valued *f.o.b.*, since this is the true value of imports as explained above
Adjustment for purchases abroad by residents in the imports

- Residents make purchases abroad and non-residents in the economy, mainly for consumption purposes.
- This information is generally available in the BoP statistics under the item travel. If not, adjustments should be made for these purchases.
- They are recorded as imports (for residents purchases) and exports (for non-resident purchases).
Links Between SNA and BOP

- $P + M = IC + C + I + X$  (P: domestic production; M: Imports, IC: intermediate consumption, C: consumption expenditure, I: gross capital formation; X: exports)
- $P - IC = G + C + I + (X - M)$: production GDP=expenditure GDP
- Gross national disposable income (GNDI) equals GDP plus net primary income from abroad (NI) plus net current transfers (NCT)
  - $GNDI = C + I + (X - M) + NI + NCT$
- Current account balance (CAB) = $(X - M) + NI + NCT$
- $GNDI = C + I + CAB$
- $GNDI - C = Saving (S)$
- $S = I + CAB$ or $I = S - CAB$
- $S - I = CAB$
  - The saving-investment gap for the total economy equals CAB
- $S + capital account balance - I = Net lending/borrowing (capital account)$
  - Capital account balance + current account balance = Net lending/borrowing
  - Net lending/borrowing of a country corresponds to the sum of total current and capital accounts’ balances in the Balance of Payments.
International accounts (BOP) and the ROW accounts (SNA)

International accounts cover:

1. current accounts:
   - goods and services account,
   - the primary income account and
   - the secondary income account

2. accumulation accounts and

3. balance sheets.
International accounts and ROW accounts

- the rest of the world account is drawn up from the perspective of the rest of the world.
- *International accounts show entries* from the point of view of the domestic economy.
- Thus the entries in international accounts are the mirror image of the entries in the ROW accounts.
- Exports/imports are shown as credits/debits in international accounts, but as uses/resources, respectively in ROW accounts.

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<thead>
<tr>
<th></th>
<th>International accounts</th>
<th>ROW accounts</th>
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<tbody>
<tr>
<td>Imports</td>
<td>Debits</td>
<td>Resources</td>
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<tr>
<td>Exports</td>
<td>Credits</td>
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Goods and services account

• The goods and services account consists only of imports and exports of goods and services

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<th>Balance of Payments</th>
<th>National currency units</th>
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<tr>
<td></td>
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<td>Goods and services</td>
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<td>Services</td>
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V.I: External account of goods and services (RoW)

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<td>P.6 Exports of goods and services</td>
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<td>6,820</td>
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<td>P.61 Exports of goods</td>
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<td>P.62 Exports of services</td>
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<td>B.11 External balance of goods and services</td>
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<td>7,506</td>
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**Primary income account**

- *The primary income account* shows the amounts receivable and payable abroad in return for providing / obtaining use of labour, financial resources or natural resources to / from non-residents.
  - Income associated with the production process: (i) compensation of employees, which represents the income for the contribution of labor inputs to the production process; (ii) taxes and subsidies on products and production, which are related to production, too;
  - Income associated with the ownership of financial and other non-produced assets as: (i) property income which is the return for providing financial assets and renting natural resources; (ii) investment income, the return for providing financial assets, which consists of dividends and withdrawals from income of quasi corporations, reinvested earnings, and interest.

- The international accounts distinguish the following types of primary income:
  - compensation of employees; dividends; reinvested earnings; interest; investment income attributable to policyholders in insurance, standardized guarantees, and pension funds; rent; taxes and subsidies on products and production.

- The entries in the primary income account are the same as in SNA accounts.
Secondary income account

- The secondary income account records current transfers between residents and non-residents. Current transfers are transactions in which real or financial resources that are likely to be consumed immediately or shortly are provided without the receipt of equivalent economic values in return.

- The important entries are:
  - current international cooperation and
  - remittances sent to their home countries by individuals working abroad
  - Others: donations, insurance (excluding service charges), etc.

- The primary and secondary income accounts under international accounts correspond to the External account of primary incomes and current transfers in the ROW accounts.
Capital and financial account

- The capital account in the international accounts shows (i) capital transfers receivable and payable between residents and nonresidents and (ii) the acquisition and disposal of non-produced, non-financial assets between residents and nonresidents.
- The financial account records transactions in financial assets and liabilities between residents and non-residents. It shows how an economy's external transactions are financed. Transactions in the financial account are classified by function (i.e. the purpose of the investment) into:
  - direct investment,
  - portfolio investment,
  - financial derivatives, and
  - other investment and reserve assets.
International accounts to ROW account

• Bridge table
Suggested Reading

- Guidebook on the Use of Administrative Data in National Accounts (Draft), UNECA, Chapters 2 and 5
- The 2008 SNA, European Commission, IMF, OECD, UN, World Bank, 2009;
  - Chapter 4: Institutional units and sectors
  - Chapters 6 to 10: Production account to capital account
  - Chapter 22: The general government and public sectors
  - Chapter 26: The rest of the world accounts and links to the balance of payments
- Essential SNA: Building the basics, Eurostat, 2013 edition
  - Chapter 5: Administrative data sources: Sections 2.3 and 2.4
- Presentation files
  - Session 8_Reading material_Government
THANKS / MERCI